

15 July 2019

Agenda Item: 4

REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND IMPROVEMENT

FINANCIAL MONITORING REPORT: PERIOD 2 2019/20

Purpose of the Report

1. To provide a summary of the Committee revenue budgets for 2019/20.
2. To provide a summary of capital programme expenditure to date and year-end forecasts.
3. To request approval for additional contingency applications.
4. To inform Members of the Council's Balance Sheet transactions.

Information Background

5. The Council approved the 2019/20 budget at its meeting on 28 February 2019. As with previous financial years, progress updates will be closely monitored and reported to management and Committee each month.

Summary Revenue Position

6. The table below summarises the revenue budgets for each Committee for the current financial year. A £5.7m net overspend is currently predicted. As a consequence of the in-year overspend and the significant financial challenges facing the Council over the medium term, the key message to effectively manage budgets and, wherever possible, deliver in-year savings is being reinforced.

Table 1 – Summary Revenue Position

Forecast Variance as at Period 1 £'000	Committee	Annual Budget £'000	Actual to Period 2 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
	- Children & Young People's	129,132	11,684	137,587	8,455
	- Adult Social Care & Public Health	216,814	22,494	214,115	(2,699)
	- Communities & Place	122,297	20,355	124,377	2,080
	- Policy	32,214	7,057	32,651	437
	- Finance & Major Contracts Management	2,847	437	2,699	(148)
	- Governance & Ethics	7,306	957	7,442	136
	- Personnel	14,897	2,365	14,755	(142)
	- Net Committee (under)/overspend	525,507	65,349	533,626	8,119
	- Central items	(21,168)	(11,078)	(23,794)	(2,626)
	- Schools Expenditure	26	-	26	-
	- Contribution to/(from) Traders	(421)	752	(50)	371
	- Forecast prior to use of reserves	503,944	55,023	509,808	5,864
	- Transfer to / (from) Corporate Reserves	919	-	919	-
	- Transfer to / (from) Departmental Reserves	(15,336)	-	(15,494)	(158)
	- Transfer to / (from) General Fund	(2,099)	-	(2,099)	-
	- Net County Council Budget Requirement	487,428	55,023	493,134	5,706

Committee and Central Items

The main variations that have been identified are explained in the following section.

Children & Young People's (£8.5m overspend, 6.6% of annual budget)

7. The Youth, Families and Social Work Division is reporting a forecast £1.0m overspend. The major contributing variances are:

- £1.0m overspend on social work staffing. £0.9m relates to the Hard to Retain teams and £0.1m other social work teams. The overspend has arisen due to a combination of staffing changes including permanent recruitment to vacancies, additional capacity staff to respond to continuing workload issues and agency workers. All agency posts continue to require the explicit approval of the Service Director - Youth, Families and Social Work and are subject to scrutiny by the quarterly Agency Challenge Panel.

8. The Education, Learning and Skills Division is reporting a net nil position although the achievement of the sold service income target is still a concern.

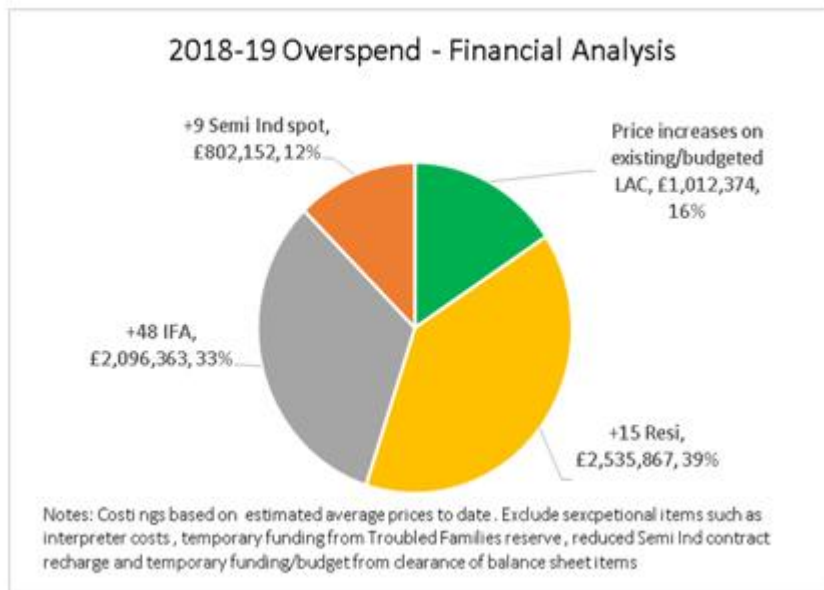
9. The Commissioning and Resources Division is forecasting an overspend of £7.5m which includes the following variances:

- £7.5m overspend on External Placements, of which £2.0m is attributable to growth in the number of Independent Fostering Agency (IFA) placements, £3.5m residential placements

and £2.1m on semi-independent placements, offset by £0.1m underspend on Placement Team staffing costs and Unaccompanied Asylum Seeking Children budgets.

- The external placements budget overspent by £5.4m in 2018/19 and the ongoing impact of that was acknowledged and provided for in the 2019/20 budget. However, the budget pressure did not anticipate the continued growth in looked after children (LAC) numbers from the point at which the calculation was made in the summer of 2018. As well as the increase in volume of placements the average weekly cost also increased, and the mix of placements changed as internal and external fostering placements reached capacity and external residential placements were sought instead. Details of the proportion of the increases is set out in figure 1 below.

Fig.1



10. A number of high-level actions have already been put in place to support and mitigate the Children and Young People's budget position as follows :-

- A letter issued by the Chief Executive in April 2019 to all budget holders urging them to follow the measures in the Spending Control Framework which was outlined in the letter.
- Internal Audit have been commissioned by the Chief Executive and S151 Officer to conduct a review of the budget management process within Children & Families.
- A piece of work is to be undertaken to benchmark current service outcomes and financial performance against other councils who are good or outstanding. This will help understand how the department is performing relative to others and prompt a deeper understanding of the challenge of balancing child care need and staying within budget.

A more detailed action and recovery plan will be brought to Finance and Major Contracts Management Committee in September.

11. In addition to the cost pressures being experienced in the Children and Families Local Authority budget there is also significant pressure on the Authority's High Needs Block which is funded from Department for Education grant. Although this does not impact on local authority budgets, the increase in numbers of pupils requiring Special Educational Needs and Disabilities (SEND) support, alternative provision and a range of SEND services has an impact on transport costs and this is referred to in paragraph 16.

Adult Social Care & Public Health (forecast £2.7m underspend, 1.3% of annual budget)

12. The major variances on care packages are as follows:

- Older Adults across the County are forecasting an underspend of £2.3m with underspends on Direct Payments, employee costs and over achievement of Joint Healthcare funding more than offsetting overspends on Long Term Residential and Nursing Care.
- Younger Adults across the County are forecast to overspend by £1.0m, due to increases in Supported Living and Residential and Nursing Care costs, although these are partly offset by underspends on Staffing and additional Joint Healthcare funding.

13. The Strategic Commissioning, Accessing and Safeguarding Division is reporting an underspend of £1.3m made up of a net increase of £0.5m in Service User Contributions, due mainly to increases in Residential & Nursing income, and £0.9m additional savings being released from the closure of the Care and Support Centres due to fewer long-term residents, offset by £0.1m of other overspends.

14. Public Health is currently forecasting an underspend of £0.1m, mainly due to slippage in the Public Health Nursing 0-19 contract which has arisen due to staff not being in post. Any net underspend will be added to reserves at year end and therefore reduce the net use of reserves.

Communities & Place (forecast £2.1m overspend, 1.7% of annual budget)

15. Transport is forecasting an overspend of £1.6m. The major contributing variances are :

- There are additional SEND Home to School costs of £0.9m caused by an increase in pupil numbers in line with expectations. The costs are SEND Pre-16 Home to School transport £0.6m; SEND Post 16 Transport £0.1m; and EOTAS (Education Other Than at School) of £0.2m.
- There is an overspend on Mainstream Home to School transport of £0.3m. This is due to the increase in pupil numbers and capacity limits at the closest designated school, necessitating transport to alternative educational establishments either by bus or taxi.
- There is a forecast overspend on Concessionary Fares of £0.3m due to increased costs for CT4N where a new operator has taken over commercial routes previously provided under a fixed rate deal by Trent Barton. Also, there are new services with fares introduction previously run as free such as hospital and shoppers' provision.
- There is a forecast overspend on Local Bus Services of £0.1m caused by ongoing pressure on provision of services, especially when commercial operators withdraw from a particular route and inflationary increases.

16. The Coroner's budget is forecasting an overspend of £0.5m based on advice from Nottingham City Council (who manage the service) and is due to an anticipated increase in the annual cost of mortuary services.

Trading Services

17. County Supplies are forecasting a deficit of £0.2m, this is attributed to trading activity prior to transfer to Hertfordshire County Council, including costs for legacy staffing, legal and IT costs. There is no reserve to fund this overspend.
18. Catering, Cleaning & Landscapes are forecasting a deficit prior to use of Reserves of £0.6m. This is to be funded partly from Traded Services Reserves of (£0.4m), the result being a forecast overspend of £0.2m. There is no reserve to fund this overspend.

Central Items (forecast £2.6m underspend)

19. Central Items primarily consist of interest on cash balances and borrowing, together with various grants, contingency and capital charges.
20. At the time of setting the 2019/20 budget, several funding allocations had not been announced, specifically with regard to the impact of business rates revaluations and, therefore, assumptions about certain grants were made based on the best information available at the time. Throughout the year confirmations are received and current forecasts suggest a net additional grant of £3.1m will be received in 2019/20.
21. Interest payments fluctuate depending on expectations of future rates and anticipated slippage on the capital programme. Current Treasury Management forecasts suggest a net overspend on interest of £0.6m. There is a net £0.1m underspend across the other central items.
22. The Council's budget includes a main contingency budget of £4.6m to cover redundancy costs, slippage of savings and unforeseen events. Contingency requests approved previously total £0.8m. Table 1 assumes that the remaining contingency budget (£3.8m) will be used for future requests.

Contingency Budget

23. A request for contingency of £150,000 has been submitted by Children and Young People's Committee (via May 2019 Policy Committee) to engage with partners to part fund a programme of work to help prevent young peoples' use of violence and weapon crime in Nottinghamshire. £50,000 of this was already approved by the Service Director – Finance, Infrastructure and Improvement in February 2019.

24. A request for contingency of up to £90,900 has been submitted by Personnel Committee (via June 2019 Improvement and Change Sub-Committee) for the development and implementation of the MyNotts App. The ongoing funding of maintaining the MyNotts App will be factored into the Medium-Term Financial Strategy.

Progress with savings and risks to the forecast

25. Council on 28 February 2019 approved savings proposals of £15.2m for delivery in 2019/20, with further savings identified for the period 2020-23. Officers will continue to monitor the deliverability of individual schemes and targets as part of the budget monitoring process and reflect achievability in the forecast outturn. The progress of the Council's current savings programme is reported to the Improvement and Change Sub-Committee on a regular basis. This report highlights all projects that are either experiencing obstacles or are at risk, the latest being 24 June 2019.
26. The 2018/19 Local Government Finance Settlement reflected the final year of the current Comprehensive Spending Review. As such, considerable uncertainty beyond 2019/20 will remain until the outcome of the 2019/20 Comprehensive Spending Review is known. For example, a number of funding strands will drop out after the current financial year including the Revenue Support Grant (£6.9m), the Business Rates Levy Account, (£1.6m), Winter Pressures (£3.5m) and the Adults and Children's Social Care Support Grant (£6.0m).

Balance Sheet

General Fund Balance

27. Members approved the 2018/19 closing General Fund Balance of £24.1m at Full Council on 11 July 2019. The 2019/20 budget approves utilisation of £2.1m of balances which will result in a closing balance of £22.0m at the end of the current financial year. This is 4.5% of the budget requirement.

Capital Programme

28. Table 2 summarises changes in the gross Capital Programme for 2019/20 since approval of the original Programme in the Budget Report (Council 28/02/19):

Table 2 – Revised Capital Programme for 2019/20

	2019/20 £'000	£'000
Approved per Council (Budget Report 2018/19)		116,375
Variations funded from County Council Allocations : Net slippage from 2017/18 and financing adjustments	21,011	
		21,011
Variations funded from other sources : Net variation from 2017/18 and financing adjustments	(4,245)	
		(4,245)
Revised Gross Capital Programme		133,141

29. Table 3 shows actual capital expenditure to date against the forecast outturn at Period 2.

Table 3 – Capital Expenditure and Forecasts as at Period 2

Committee	Revised Capital Programme £'000	Actual Expenditure to Period 2 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People's	50,768	2,508	50,768	-
Adult Social Care & Public Health	2,904	(938)	3,044	140
Communities & Place	61,233	2,318	61,233	-
Policy	17,800	76	17,714	(86)
Finance & Major Contracts Mngt	180	7	180	-
Governance & Ethics	256	-	256	-
Contingency	-	-	-	-
Total	133,141	3,971	133,195	54

Financing the Approved Capital Programme

30. Table 4 summarises the financing of the overall approved Capital Programme for 2019/20.

Table 4 – Financing of the Approved Capital Programme for 2019/20

Committee	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People's	32,287	17,874	-	607	50,768
Adult Social Care & Public Health	2,271	633	-	-	2,904
Communities & Place	15,949	43,739	1,128	417	61,233
Policy	15,187	2,591	-	22	17,800
Finance & Major Contracts Mngt	-	-	-	180	180
Personnel	256	-	-	-	256
Contingency	-	-	-	-	-
Total	65,950	64,837	1,128	1,226	133,141

31. It is anticipated that borrowing in 2019/20 will increase by £20.9m from the forecast in the Budget Report 2019/20 (Council 28/02/2019). This increase is primarily a consequence of:

- £21.0m of net slippage from 2018/19 to 2019/20 and financing adjustments funded by capital allocations.
- Net slippage in 2019/20 of £0.1m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

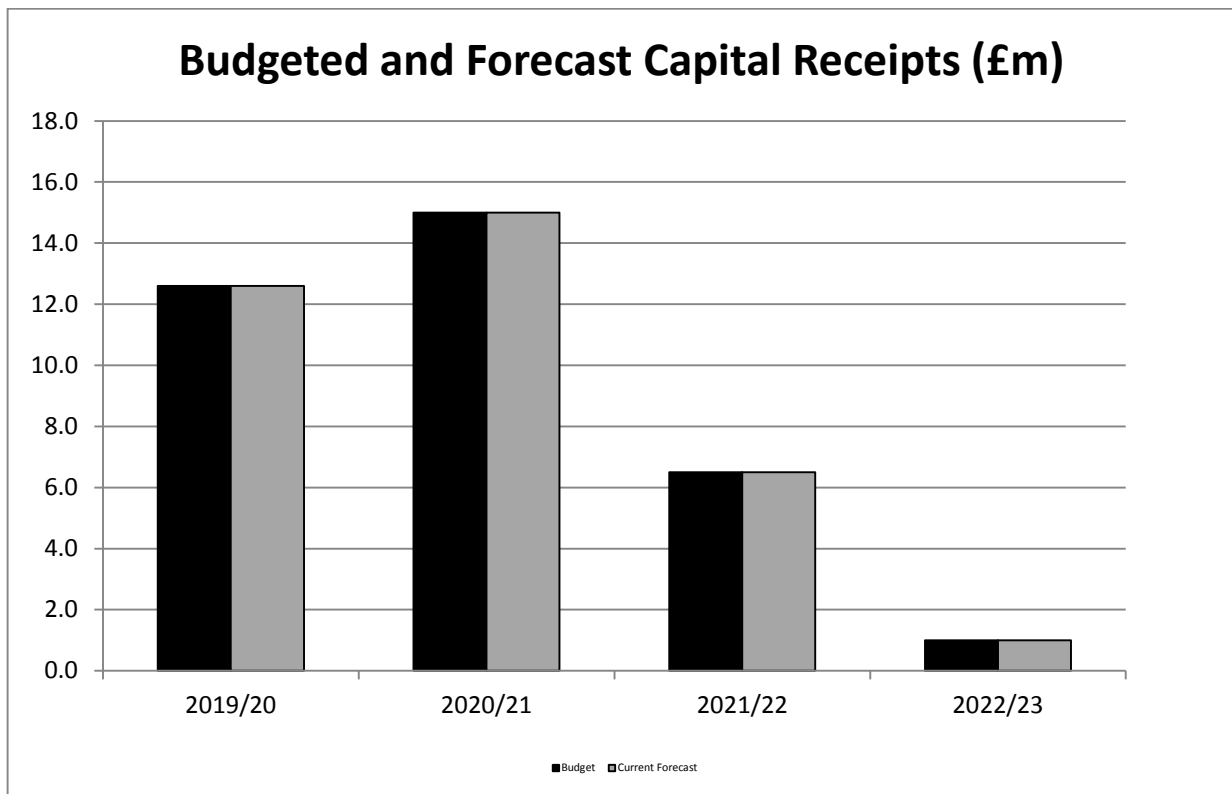
Prudential Indicator Monitoring

32. Performance against the Council's Prudential Indicators is regularly monitored to ensure that external debt remains within both the operational boundary and the authorised limit.

Capital Receipts Monitoring

33. Anticipated capital receipts are regularly reviewed. Forecasts are currently based on estimated sales values of identified properties and prudently assume a slippage factor based upon a review of risk associated with each property.

34. The chart below shows the budgeted and forecast capital receipts for the four years to 2022/23.



35. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2019/20 (Council 28/02/2019). These capital receipts budgets prudently incorporated slippage, giving a degree of “protection” from the risk of non-delivery.

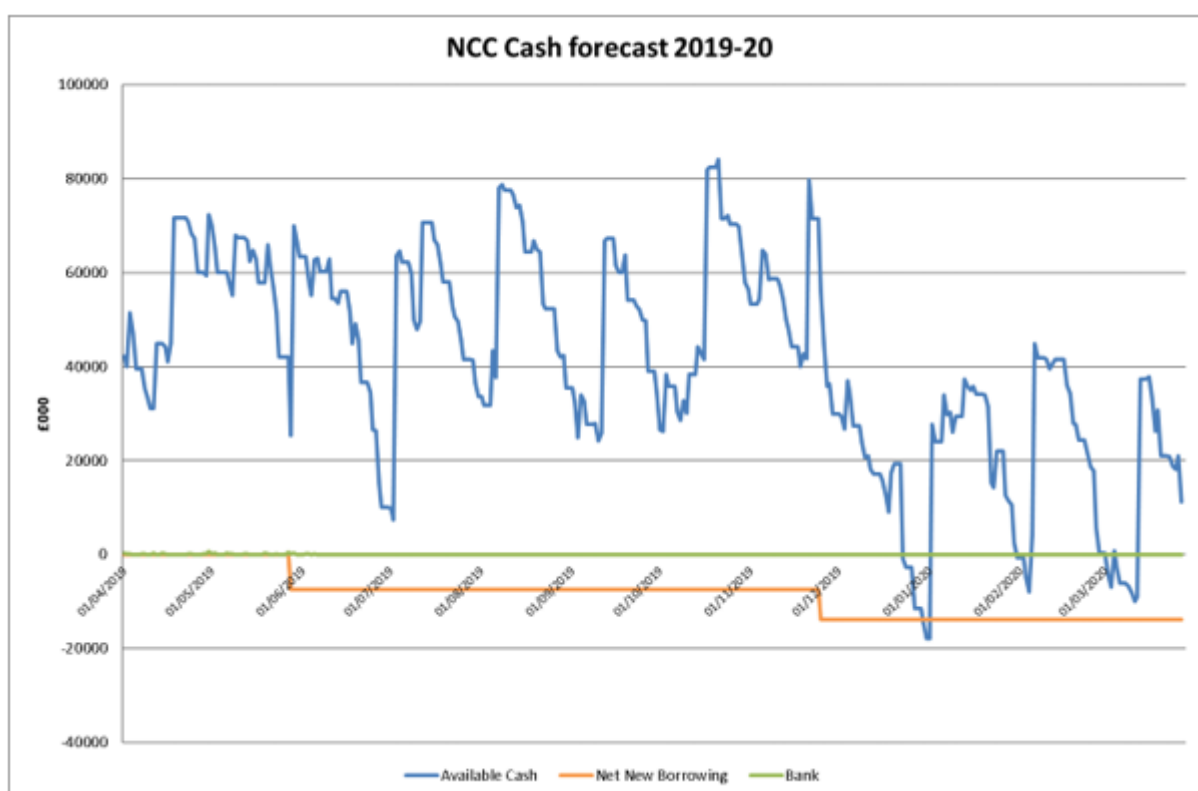
36. The capital receipt forecast for 2019/20 is £12.6m. To date in 2019/20, capital receipts totalling £0.1m have been received.

37. The number and size of large anticipated receipts increase the risk that income from property sales will be below the revised forecasts over the next three years. Although the forecasts incorporate an element of slippage, a delay in receiving just two or three large receipts could result in sales being lower than the forecast.

38. Current Council policy (Budget Report 2019/20) is to use the first £4.9m of capital receipts to fund in-year transformation costs. Any capital receipts in excess of this will be set against the principal of previous years’ borrowing. This reduces the amount of Minimum Revenue Provision (MRP) to be set aside each year. It is important to regularly monitor capital receipt forecasts and their effect on the overall revenue impact of the Capital Programme.

Treasury Management

39. Daily cash management aims for a closing nil balance across the Council's pooled bank accounts with any surplus cash invested in accordance with the approved Treasury Management Policy. Cash flow is monitored by the Senior Accountant (Pensions & Treasury Management) with the overall position reviewed quarterly by the Treasury Management Group.
40. The Cash forecast chart below shows the current cash flow position for the financial year 2019/20. Cash inflows are typically higher at the start of the year due to the front-loading receipt of Central Government grants, and the payment profile of precepts. Cash outflows, in particular capital expenditure, tend to increase later in the year, and the chart below reflects this.

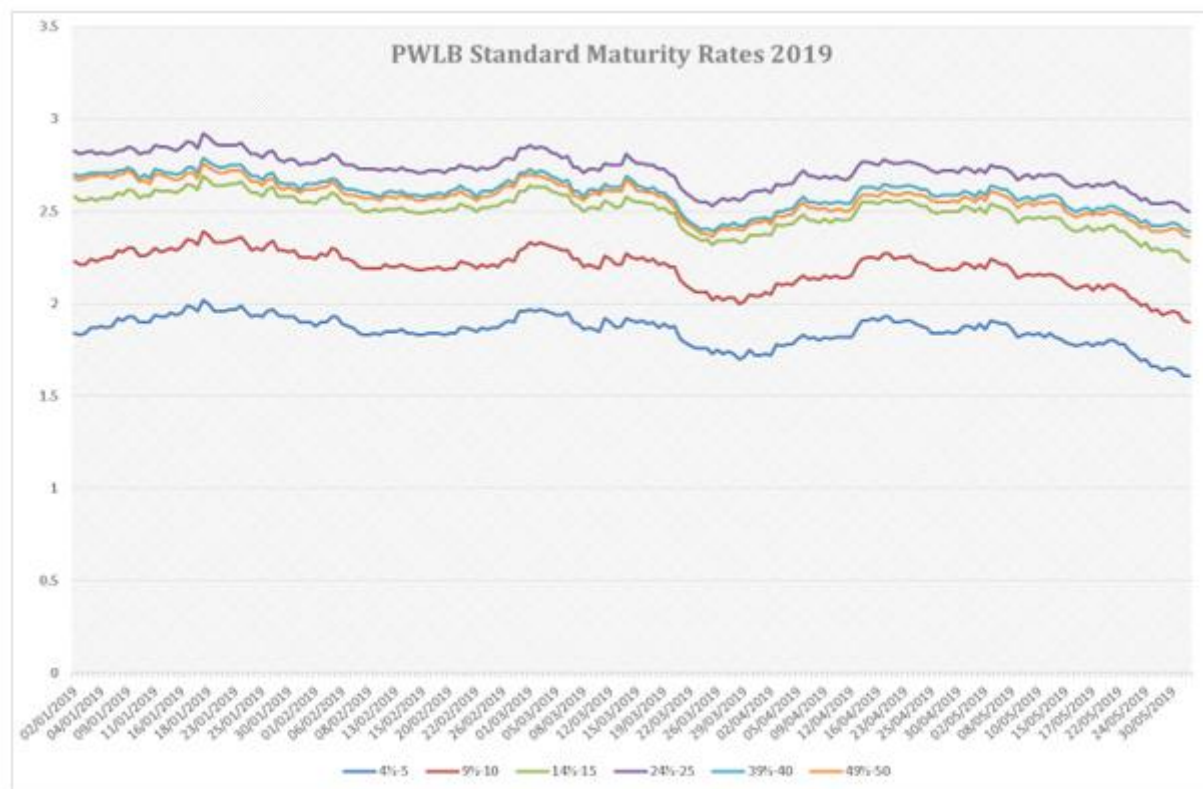


41. The chart above gives the following information:

Available cash	Surplus cash (invested in call accounts or money market funds) or a shortfall of cash indicating a need to borrow.
Net new borrowing	New loans taken during the year net of principal repayments on existing borrowing.
Bank	That element of surplus cash held in the Council's Barclays Bank account.

42. The Treasury Management Strategy for 2019/20 identified a need to borrow approximately £7m over the course of the year to (a) fund the capital programme, (b) replenish internal balances and to (c) replace maturing debt. This estimate will be revised after the 2018/19 accounts closure and periodically throughout the year.

43. PWLB interest rates continue to be monitored closely to allow changes - or potential changes - in rates to feed into decisions on new borrowing. The Council remains able to take advantage of the PWLB “certainty rate” which is 0.2% below the standard rates. The chart below shows the movement in standard PWLB maturity rates over the course of 2019 so far.



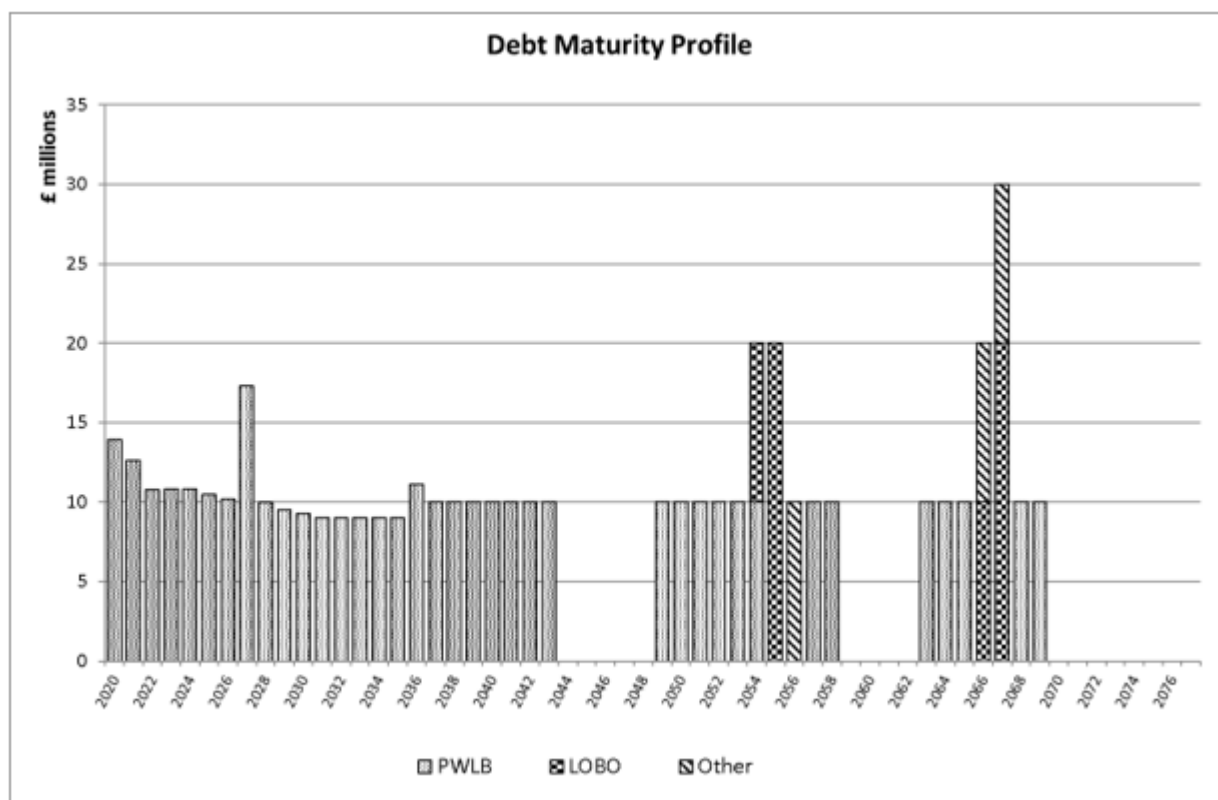
44. Borrowing decisions will take account of a number of factors including:

- expected movements in interest rates
- current maturity profile
- the impact on revenue budgets and the medium term financial strategy
- the treasury management prudential indicators.

45. The maturity profile of the Council's debt portfolio is shown in the chart below. The PWLB loans are reasonably well distributed and have a maximum duration of 50 years. When deciding on the lengths of future loans the Council will factor in any gaps in its maturity profile, with a view to minimising interest rate risk, but will consider this alongside other financial factors.

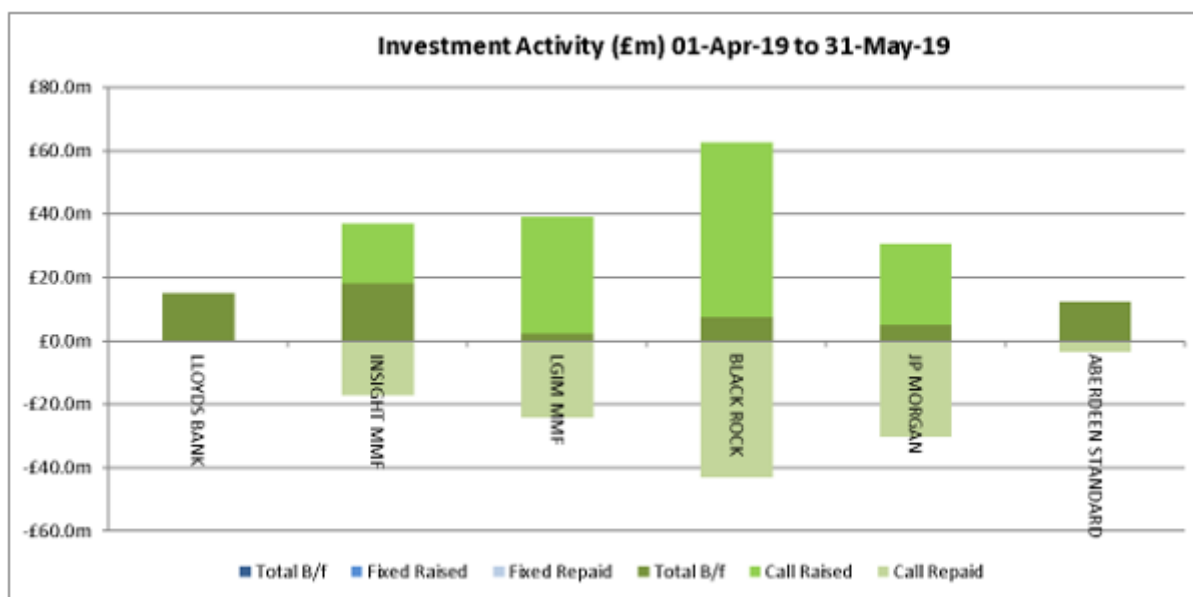
46. Long-term borrowing was also obtained from the market some years ago in the form of 'Lender's Options, Borrower's Options' loans (LOBOs). These loans are treated as fixed rate loans (on the basis that, if the lender ever opts to increase the rate, the Council will repay the loan) and were all taken at rates lower than the prevailing PWLB rate at the time. However, LOBOs could actually mature at various points before then, exposing the Council to some refinancing risk.

47. The 'other' loans shown in the chart consists of LOBO loans from Barclays Bank that were converted to standard fixed-term loans in 2016.



48. The investment activity for 2019/20 is summarised in the chart and table below. Outstanding investment balances totalled approximately £60m at the start of the year and approximately £79m at the month-end.

	Total B/F £ 000's	Raised £ 000's	Repaid £ 000's	Outstanding £ 000's
Lloyds Bank	15,000	-	-	15,000
IGNIS MMF	18,100	19,000	(17,300)	19,800
LGIM MMF	2,200	37,000	(24,300)	14,900
Black Rock	7,600	55,100	(43,250)	19,450
JP Morgan	4,900	25,800	(30,300)	400
Aberdeen Standard	12,500	-	(3,550)	8,950
Total	60,300	136,900	(118,700)	78,500



49. As part of the Council's risk management processes all counterparty ratings are regularly monitored and lending restrictions changed accordingly.

Statutory and Policy Implications

50. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATIONS

- 1) To comment on the revenue budget expenditure to date and year-end forecasts.
- 2) To comment on the capital programme expenditure to date and year-end forecasts.
- 3) To approve the contingency requests.
- 4) To comment on the Council's Balance Sheet transactions.

Nigel Stevenson Service Director – Finance, Infrastructure and Improvement

For any enquiries about this report please contact:

Keith Palframan - Group Manager, Financial Services

Tamsin Rabbitts - Senior Accountant, Pensions and Treasury Management

Constitutional Comments (KK 01/07/2019)

51. Pursuant to Part 4 section 21 of the Nottinghamshire County Council's Constitution the Finance and Major Contracts Management Committee has the delegated authority for all decisions within the control of the Council including but not limited to responsibility for the financial management of the Authority. The recommendations contained within this report fall within the delegated authority to this Committee

Financial Comments (GB 20/06/2019)

52. The financial implications are stated within the report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All

